

CITY OF CASTROVILLE, TEXAS

**ANNUAL
FINANCIAL REPORT**

**FISCAL YEAR ENDED
SEPTEMBER 30, 2016**



CITY OF CASTROVILLE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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CITY OF CASTROVILLE

PRINCIPAL OFFICERS

CITY OFFICIALS

MAYOR	JEFF GARDNER
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MAYOR PRO-TEM	VICTOR ORTIZ, JR.
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CITY COUNCIL	KYLE L. MCVAY
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	PHIL KING
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	JESUS “JESSE” MENDOZA
--	-----------------------

	ERIC CHERRY
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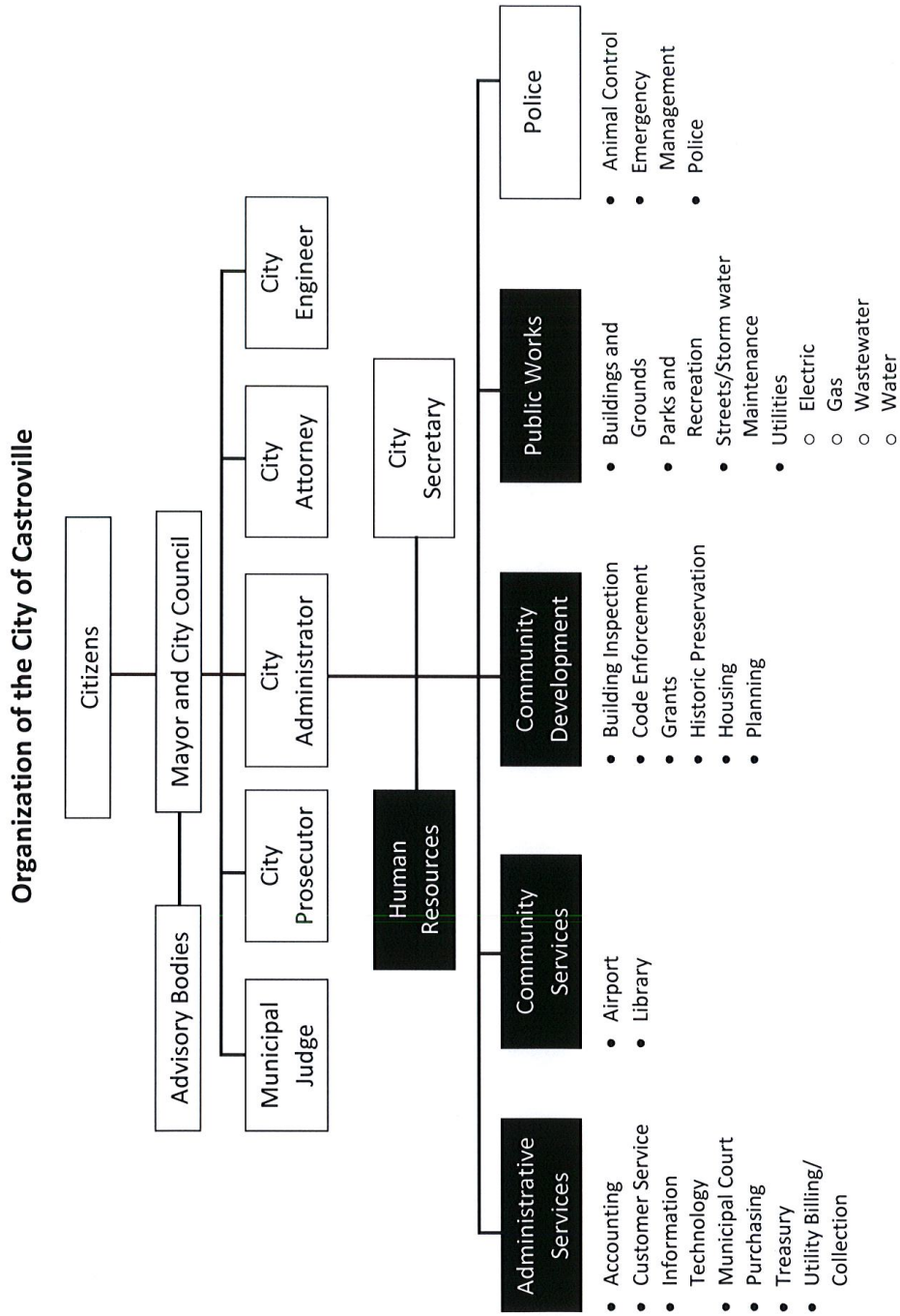
CITY ADMINISTRATOR	MARIE GELLES
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ATTORNEY	DENTON, NAVARRO, ROCHA & BERNAL
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AUDITOR	ARMSTRONG, VAUGHAN & ASSOCIATES, P.C.
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CITY OF CASTROVILLE

ORGANIZATIONAL CHART



☐ Appointed by Mayor and City Council
 ☐ Appointed by City Administrator

SHAREHOLDERS:

Nancy L. Vaughan, CPA
Deborah F. Fraser, CPA
Phil S. Vaughan, CPA



Armstrong, Vaughan & Associates, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the City Council
City of Castroville

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Castroville, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City of Castroville's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Castroville, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, and schedule of changes – net pension liability and related ratios as identified in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Castroville's financial statements as a whole. The comparative statements and combining statements are presented for purposes of additional analysis and are not a required part of the financial statements. The comparative statements and combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Armstrong, Vaughan & Associates, P.C.

January 27, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Castroville's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2016. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

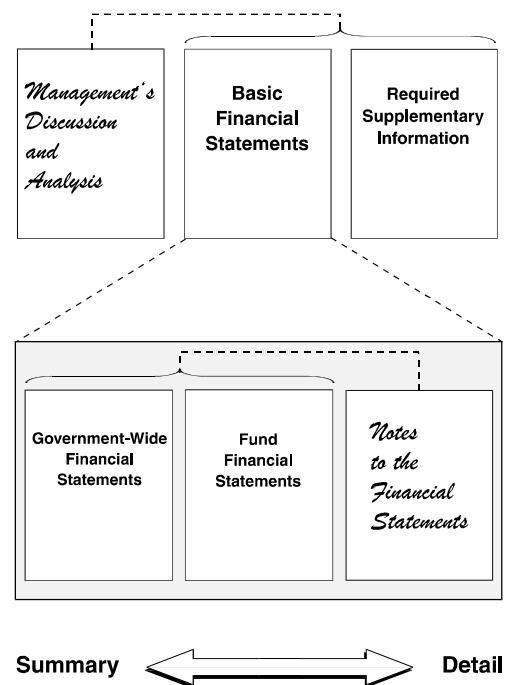
- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows by \$18.4 million (total net position) at September 30, 2016. Of this amount, \$5.5 million (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- During the year, the City's total net position increased by \$708 thousand.
- As of September 30, 2016, the City's governmental funds reported a combined ending fund balances of \$1.8 million, an increase of \$28 thousand from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.

Figure A-1, Required Components of the City's Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements			
<i>Type of Statements</i>	Fund Statements		
	Government-wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	Entire City's government (except fiduciary funds) and the City's component units	The activities of the city that are not proprietary or fiduciary	Activities the City operates similar to private businesses: water and sewer
<i>Required financial statements</i>	• Statement of net position	• Balance Sheet	• Statement of net position
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances	• Statement of revenues, expenses & changes in net position • Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances.

The statement of net position presents information on all of the City's assets, deferred outflows, deferred inflows, and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general administration, public safety, public works and park maintenance. The business-type activities of the City include a Utility fund and an Airport fund.

The government-wide financial statements include only the City itself (known as the primary government). The government-wide financial statements can be found on pages 13-16 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the City can be divided into two categories: governmental and proprietary.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for all governmental funds. A budgetary comparison schedule has been provided as supplementary information to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found beginning on page 17 of this report.

Proprietary funds: The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Utility and Airport activities. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Utility fund, the Airport fund and the Utility Capital Projects fund, all of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found beginning on page 22 of this report.

Notes to the basic financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 27 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's adopted budget and the City's progress in funding its obligation to provide pension benefits to its employees. The required supplementary information related to the budget and pension benefits can be found beginning on page 50 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds can be found beginning on pages 58 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$18.4 million at the close of fiscal year 2016.

By far the largest portion of the City's net position (66%) reflects its net investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following table provides a summary of the City's net assets at September 30, 2016 (See Table A-1).

Table A-1
City's Net Position

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2016	2015	2016	2015	2016	2015	2016 - 2015
<i>Assets:</i>							
Current and Other Assets	\$ 2,047,176	\$ 1,885,973	\$ 5,491,566	\$ 5,194,355	\$ 7,538,742	\$ 7,080,328	6.5
Restricted Assets	-	-	15,498,516	501,786	15,498,516	501,786	2988.7
Capital Assets (net)	1,983,388	1,935,164	12,054,698	11,406,740	14,038,086	13,341,904	5.2
<i>Total Assets</i>	<u>4,030,564</u>	<u>3,821,137</u>	<u>33,044,780</u>	<u>17,102,881</u>	<u>37,075,344</u>	<u>20,924,018</u>	77.2
<i>Deferred Outflows:</i>							
Deferred Charge on Refunding	35,165	38,683	8,726	9,598	43,891	48,281	(9.1)
Deferred Pension Related	291,083	103,797	135,383	46,314	426,466	150,111	184.1
<i>Total Deferred Outflows</i>	<u>326,248</u>	<u>142,480</u>	<u>144,109</u>	<u>55,912</u>	<u>470,357</u>	<u>198,392</u>	137.1
<i>Liabilities:</i>							
Current Liabilities	359,751	230,781	1,685,251	608,722	2,045,002	839,503	143.6
Long-Term Liabilities	1,590,630	1,573,694	15,478,402	1,035,794	17,069,032	2,609,488	554.1
<i>Total Liabilities</i>	<u>1,950,381</u>	<u>1,804,475</u>	<u>17,163,653</u>	<u>1,644,516</u>	<u>19,114,034</u>	<u>3,448,991</u>	454.2
<i>Deferred Inflows:</i>							
Deferred Pension Related	55,061	20,812	25,609	9,286	80,670	30,098	168.0
<i>Total Deferred Inflows</i>	<u>55,061</u>	<u>20,812</u>	<u>25,609</u>	<u>9,286</u>	<u>80,670</u>	<u>30,098</u>	168.0
<i>Net Position:</i>							
Net Investment in							
Capital Assets	777,082	577,648	11,257,872	10,698,095	12,034,954	11,275,743	6.7
Restricted	83,381	73,585	743,938	482,060	827,319	555,645	48.9
Unrestricted	1,490,907	1,487,097	3,997,817	4,324,836	5,488,724	5,811,933	(5.6)
<i>Total Net Position</i>	<u>\$ 2,351,370</u>	<u>\$ 2,138,330</u>	<u>\$15,999,627</u>	<u>\$15,504,991</u>	<u>\$18,350,997</u>	<u>\$17,643,321</u>	4.0

An additional portion of the City's net position \$827 thousand (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$5.5 million (30%) may be used to meet the government's ongoing obligations to citizens and creditors.

Change in Net Position: The City's net position increased \$708 thousand. (See Table A-2.)

Table A-2
Changes in City's Net Position

	Governmental Activities		Business-Type Activities		Total		Percentage Change
	2016	2015	2016	2015	2016	2015	2016 - 2015
<i>Program Revenues:</i>							
Charges for Services	\$ 622,771	\$ 653,323	\$ 6,770,406	\$ 6,674,285	\$ 7,393,177	\$ 7,327,608	0.9
Operating Grants and Contributions	1,155	1,860	29,608	15,352	30,763	17,212	78.7
Capital Grants and Contributions	-	-	-	458,028	-	458,028	(100.0)
<i>General Revenues:</i>							
Taxes	1,711,837	1,567,587	-	-	1,711,837	1,567,587	9.2
Interest Earnings	6,161	6,155	16,018	9,527	22,179	15,682	41.4
Miscellaneous	67,118	50,599	-	-	67,118	50,599	32.6
TOTAL REVENUES	2,409,042	2,279,524	6,816,032	7,157,192	9,225,074	9,436,716	(2.2)
<i>Program Expenditures:</i>							
General Administration	1,018,598	884,817	-	-	1,018,598	884,817	15.1
Public Safety	1,161,911	1,110,007	-	-	1,161,911	1,110,007	4.7
Public Transportation	355,600	268,459	-	-	355,600	268,459	32.5
Culture and Recreation	502,833	564,816	-	-	502,833	564,816	(11.0)
Interest in Debt	36,792	39,705	-	-	36,792	39,705	(7.3)
Utility	-	-	4,883,994	4,265,995	4,883,994	4,265,995	14.5
Airport	-	-	557,670	464,712	557,670	464,712	20.0
TOTAL EXPENSES	3,075,734	2,867,804	5,441,664	4,730,707	8,517,398	7,598,511	12.1
Increase (Decrease) in Net Position before Transfers	(666,692)	(588,280)	1,374,368	2,426,485	707,676	1,838,205	(61.5)
Transfers	879,732	883,573	(879,732)	(883,573)	-	-	0.0
Increase (Decrease) in Net Position after Transfers	\$ 213,040	\$ 295,293	\$ 494,636	\$ 1,542,912	\$ 707,676	\$ 1,838,205	(61.5)

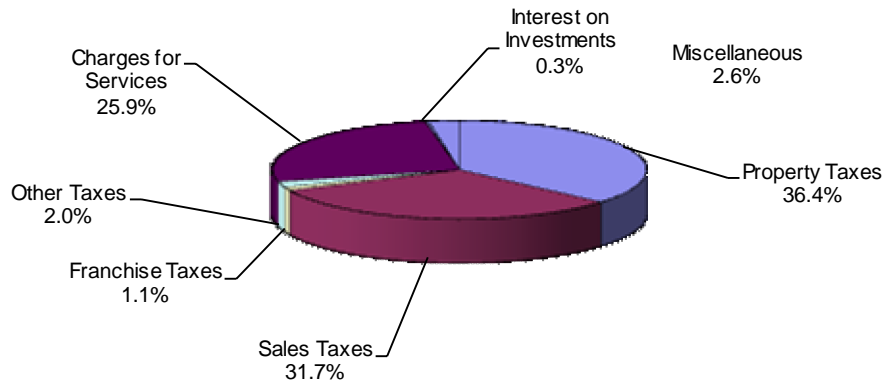
Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities for fiscal year 2016.

Governmental Activities

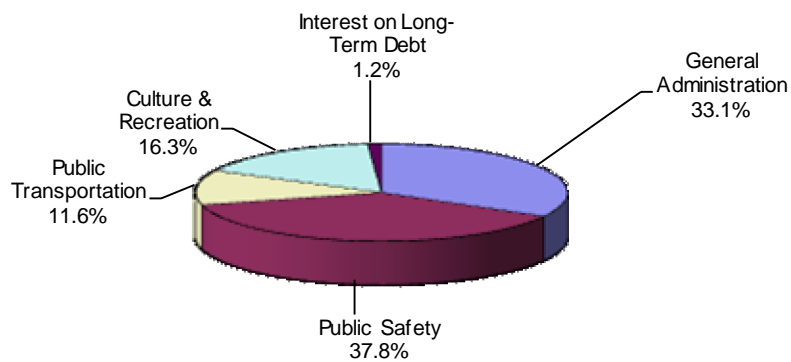
- Property taxes increased \$82 thousand over the previous year.
- Sales taxes increased \$56 thousand over the previous year.

Governmental activities showed a decrease of \$667 thousand before transfers from business-type activities. The business-type activities transferred \$880 thousand to governmental activities resulting in an increase in net position of \$213 thousand.

2016 Governmental Revenues



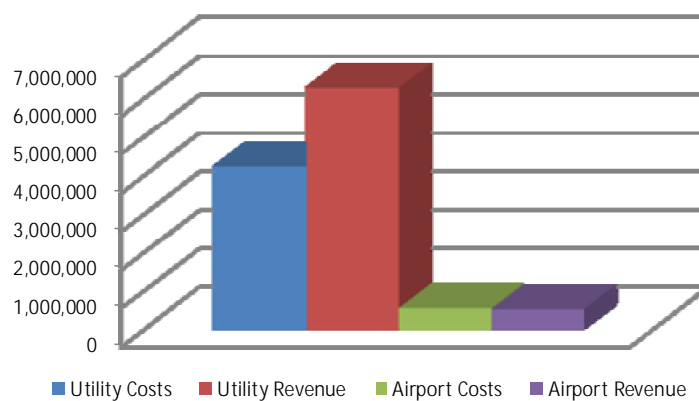
2016 Governmental Function Expenses



Business-Type Activities

Business-type activities increased the City's net position by \$495 thousand after transfers to governmental activities of \$880 thousand. This increase is partially attributed to the increased charges for services for utilities and lease revenues at the Airport.

Business-Type Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1.8 million. Of this total amount, \$87 thousand is restricted by constraints imposed by external providers such as grantors and enabling legislation, \$313 thousand is committed and reported in special revenue and capital improvement funds, and \$1.4 million is unassigned in the governmental funds. The unassigned fund balance is the amount available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$1.4 million. The City's general fund balance showed an increase of \$69 thousand during the year. This is attributed to increases in property taxes, sales tax, and permit revenue.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net position of the Utility Fund at the end of the year amounted to \$3.7 million. The increase in net position was \$534 thousand. This increase is attributable to an increase in utility rates. Unrestricted net position of the Airport Fund at the end of the year amounted to \$274 thousand. The decrease in net position was \$40 thousand. This decrease is attributable to increased depreciation expense at the airport. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

There were no differences between the original budget and the final budget. The general fund expenditures were under budget by \$500 thousand as a result of cost containment.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2016, the City had invested \$14 million in a broad range of capital assets, including land, buildings and improvements, equipment and vehicles, and infrastructure (See Table A-3.). This amount represents a net increase (including additions and deductions) of \$696 thousand or 5.2% over last year. More detailed information about the City's capital assets is presented in the notes to the financial statements.

Table A-3
City's Capital Assets
(in thousands dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2016	2015	2016	2015	2016	2015	2016 - 2015
Land	\$ 105	\$ 105	\$ 1,549	\$ 1,549	\$ 1,654	\$ 1,654	0.0
Construction in Progress	-	-	1,476	4,120	1,476	4,120	(64.2)
Water Rights	-	-	127	112	127	112	13.4
Buildings and Improvements	589	589	6,497	2,897	7,086	3,486	103.3
Vehicles and Equipment	929	778	1,152	1,093	2,081	1,871	11.2
Infrastructure	1,814	1,814	8,732	8,732	10,546	10,546	0.0
Totals at Historical Cost	3,437	3,286	19,533	18,503	22,970	21,789	5.4
Total Accumulated Depreciation	(1,454)	(1,352)	(7,479)	(7,096)	(8,933)	(8,448)	5.7
Net Capital Assets	\$ 1,983	\$ 1,934	\$ 12,054	\$ 11,407	\$ 14,037	\$ 13,341	5.2

Long Term Debt

At year-end the City had \$17.1 million in bonds and notes outstanding as shown in Table A-4. More detailed information about the City's debt is presented in the notes to the financial statements. The City's S&P rating was upgraded to AA Stable.

Table A-4
City's Long-Term Debt
(in thousands dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2016	2015	2016	2015	2016	2015	2016 - 2015
Bonds Payable	\$ 1,184	\$ 1,333	\$ 286	\$ 322	\$ 1,470	\$ 1,655	(11.2)
Notes Payable	-	-	87	107	87	107	(18.7)
TWDB Bonds Payable	-	-	15,590	585	15,590	585	2565.0
Total Long-Term Debt	\$ 1,184	\$ 1,333	\$ 15,963	\$ 1,014	\$ 17,147	\$ 2,347	630.6

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- § Sales tax revenues are expected to increase significantly in the near future with the anticipated growth of new commercial development along the Hwy 90 corridor.
- § A Walmart retail store is scheduled to open in March 2017 potentially adding more than 300 jobs.
- § The City anticipates an increase in new home development for FY 2017, providing additional property tax and utility revenues to the City.
- § The City increased the property tax rate by \$0.023833 to increase revenues for maintenance & operations as well as interest & sinking.
- § Utility rates were increased across the board for FY 2017.
- § The City issued bonds and received funding from the Texas Water Development Board's State Revolving Fund program for below market interest rate loans for the construction phase of infrastructure improvements beginning during FY 2017. The improvements include the construction of a new East Side Lift Station, the replacement of undersized and leaking water

lines, and the expansion of the Wastewater Treatment Plant. These initiatives will provide for future growth and development in the area.

- § TxDOT approved grant funding for the City's airport to construct a Jet Fuel Farm increasing the capital investment at the Airport.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services Department, 1209 Fiorella, Castroville, Texas, 78009. Telephone No. (830) 931-4070.



BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government – Wide Financial Statements
- Fund Financial Statements:
 - Governmental Funds
 - Proprietary Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 1,853,691	\$ 4,754,385	\$ 6,608,076
Receivables (net of allowances for uncollectibles)			
Ad Valorem Taxes	9,734	-	9,734
Sales & Mixed Beverage Taxes	128,254	-	128,254
Other	12,869	697,839	710,708
Inventory	-	81,970	81,970
Internal Balances	42,628	(42,628)	-
Restricted Assets:			
Cash and Investments	-	1,120,362	1,120,362
Investments Held in Escrow	-	14,378,154	14,378,154
Capital Assets:			
Land	105,330	1,548,522	1,653,852
Construction in Progress	-	1,476,059	1,476,059
Water Rights	-	127,386	127,386
Building and Improvements	588,965	6,497,311	7,086,276
Vehicles and Equipment	929,202	1,152,303	2,081,505
Infrastructure	1,814,385	8,731,941	10,546,326
Accumulated Depreciation	(1,454,494)	(7,478,824)	(8,933,318)
TOTAL ASSETS	4,030,564	33,044,780	37,075,344
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Refunding	35,165	8,726	43,891
Deferred Pension Related Outflows	291,083	135,383	426,466
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 326,248	\$ 144,109	\$ 470,357

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
<i>Current Liabilities:</i>			
Accounts Payable	\$ 125,167	\$ 763,133	\$ 888,300
Accrued Expenses	74,699	-	74,699
Accrued Interest Payable	5,158	46,541	51,699
Unearned Revenue	-	2,600	2,600
<i>Payable from Restricted Assets:</i>			
Customer Deposits	-	159,810	159,810
<i>Noncurrent Liabilities:</i>			
Due within One Year	154,727	713,167	867,894
Due in more than One Year	1,158,680	15,277,502	16,436,182
Net Pension Liability	431,950	200,900	632,850
TOTAL LIABILITIES	<u>1,950,381</u>	<u>17,163,653</u>	<u>19,114,034</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Related Inflows	55,061	25,609	80,670
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>55,061</u>	<u>25,609</u>	<u>80,670</u>
NET POSITION			
Net Investment in Capital Assets	777,082	11,257,872	12,034,954
Restricted	83,381	743,938	827,319
Unrestricted	1,490,907	3,997,817	5,488,724
TOTAL NET POSITION	<u>\$ 2,351,370</u>	<u>\$ 15,999,627</u>	<u>\$ 18,350,997</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Functions and Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
<i>Governmental Activities:</i>				
General Administration	\$ 1,018,598	\$ 139,423	\$ -	\$ -
Public Safety	1,161,911	219,666	1,155	-
Public Transportation	355,600	105,385	-	-
Culture and Recreation	502,833	158,297	-	-
Interest on Long-term Debt	36,792	-	-	-
<i>Total Governmental Activities</i>	<u>3,075,734</u>	<u>622,771</u>	<u>1,155</u>	<u>-</u>
<i>Business-Type Activities</i>				
Utility	4,883,994	6,276,581	-	-
Airport	557,670	493,825	29,608	-
<i>Total Business-Type Activities</i>	<u>5,441,664</u>	<u>6,770,406</u>	<u>29,608</u>	<u>-</u>
Total Primary Government	<u>\$ 8,517,398</u>	<u>\$ 7,393,177</u>	<u>\$ 30,763</u>	<u>\$ -</u>
General Revenues:				
Taxes				
Ad Valorem Taxes				
Sales Taxes				
Franchise Taxes				
Other Taxes				
Interest and Investment Earnings				
Miscellaneous				
Total General Revenues				
Transfers				
Change in Net Position				
Net Position at Beginning of Year				
Net Position at End of Year				

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (879,175)	\$ -	\$ (879,175)
(941,090)	-	(941,090)
(250,215)	-	(250,215)
(344,536)	-	(344,536)
(36,792)	-	(36,792)
<u>(2,451,808)</u>	<u>-</u>	<u>(2,451,808)</u>
-	1,392,587	1,392,587
-	(34,237)	(34,237)
<u>-</u>	<u>1,358,350</u>	<u>1,358,350</u>
<u>(2,451,808)</u>	<u>1,358,350</u>	<u>(1,093,458)</u>
875,555	-	875,555
762,718	-	762,718
26,356	-	26,356
47,208	-	47,208
6,161	16,018	22,179
67,118	-	67,118
<u>1,785,116</u>	<u>16,018</u>	<u>1,801,134</u>
<u>879,732</u>	<u>(879,732)</u>	<u>-</u>
213,040	494,636	707,676
<u>2,138,330</u>	<u>15,504,991</u>	<u>17,643,321</u>
<u>\$ 2,351,370</u>	<u>\$ 15,999,627</u>	<u>\$ 18,350,997</u>

CITY OF CASTROVILLE
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	Major Fund General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 1,502,853	\$ 350,838	\$ 1,853,691
Receivables (net of allowance):			
Property Taxes	8,659	1,075	9,734
Sales & Mixed Beverage Taxes	128,254	-	128,254
Other Receivables	8,848	4,021	12,869
Due from Other Funds	-	45,655	45,655
TOTAL ASSETS	<u><u>\$ 1,648,614</u></u>	<u><u>\$ 401,589</u></u>	<u><u>\$ 2,050,203</u></u>
LIABILITIES, DEFERRED INFLOWS OF OF RESOURCES, AND FUND BALANCES			
<i>Liabilities:</i>			
Accounts Payable	\$ 124,989	\$ 178	\$ 125,167
Accrued Expenditures	74,699	-	74,699
Due to Other Funds	1,508	1,519	3,027
<i>Total Liabilities</i>	<u>201,196</u>	<u>1,697</u>	<u>202,893</u>
<i>Deferred Inflows of Resources:</i>			
Unavailable Revenues	8,659	1,075	9,734
Future Sales Tax Revenues	60,627	-	60,627
<i>Total Deferred Inflows of Resources</i>	<u>69,286</u>	<u>1,075</u>	<u>70,361</u>
<i>Fund Balances:</i>			
Restricted	-	87,464	87,464
Committed	-	312,781	312,781
Unassigned	1,378,132	(1,428)	1,376,704
<i>Total Fund Balances</i>	<u>1,378,132</u>	<u>398,817</u>	<u>1,776,949</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, & FUND BALANCES	<u><u>\$ 1,648,614</u></u>	<u><u>\$ 401,589</u></u>	<u><u>\$ 2,050,203</u></u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 1,776,949
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,983,388
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	70,361
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds.

Accrued Vacation Leave Payable	(71,936)	
Deferred Charge on Refunding	35,165	
Bonds Payable	<u>(1,241,471)</u>	(1,278,242)

Net pension liabilities (and related deferred inflows and outflows of resources) do not consume current financial resources and are not reported in the funds.

Net Pension Liability	(431,950)	
Pension Related Deferred Outflows	291,083	
Pension Related Deferred Inflows	<u>(55,061)</u>	(195,928)

Accrued interest payable on long-term-bonds is not due and payable in the current period and, therefore, not reported in the funds.	<u>(5,158)</u>
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,351,370</u></u>
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See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Major Fund General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Ad Valorem Taxes	\$ 792,065	\$ 83,490	\$ 875,555
Sales Taxes	758,697	-	758,697
Franchise Fees	26,356	-	26,356
Other Taxes	3,242	43,966	47,208
Licenses and Permits	132,724	-	132,724
Charges for Services	164,996	113,507	278,503
Fines and Forfeitures	211,544	-	211,544
Intergovernmental Revenue	-	1,155	1,155
Interest Income	4,406	1,755	6,161
Miscellaneous	64,905	2,213	67,118
TOTAL REVENUES	2,158,935	246,086	2,405,021
EXPENDITURES			
<i>Current:</i>			
General Administration			
City Administration	141,290	71,963	213,253
Finance	235,820	-	235,820
City Council	32,380	-	32,380
City Secretary	98,327	-	98,327
Information Technology	70,516	-	70,516
Human Resources	64,403	-	64,403
Non-Departmental	255,107	-	255,107
Public Safety			
Animal Control	55,656	-	55,656
Code Enforcement	247,818	-	247,818
Municipal Court	88,257	8,065	96,322
Police Department	749,580	41	749,621
Economic Development	25,046		25,046
Public Transportation			
Streets	320,065	-	320,065
Culture and Recreation			
Library	180,535	-	180,535
Parks	197,003	-	197,003
Pool	112,637	-	112,637
<i>Capital Outlay</i>	114,028	-	114,028
<i>Debt Service:</i>			
Principal	-	149,000	149,000
Interest and Fiscal Charges	-	39,500	39,500
TOTAL EXPENDITURES	2,988,468	268,569	3,257,037
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	\$ (829,533)	\$ (22,483)	\$ (852,016)

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Other Nonmajor</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 919,747	\$ 144,066	\$ 1,063,813
Transfers Out	<u>(21,223)</u>	<u>(162,858)</u>	<u>(184,081)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>898,524</u>	<u>(18,792)</u>	<u>879,732</u>
Net Change in Fund Balance	68,991	(41,275)	27,716
Fund Balances at Beginning of Year	<u>1,309,141</u>	<u>440,092</u>	<u>1,749,233</u>
Fund Balances at End of Year	<u><u>\$ 1,378,132</u></u>	<u><u>\$ 398,817</u></u>	<u><u>\$ 1,776,949</u></u>

See accompanying notes to basic financial statements.



CITY OF CASTROVILLE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 27,716

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense. This is the amount by which
capital outlays exceeded depreciation. 48,224

Revenues in the Statement of Activities that do not provide current financial
resources are not reported as revenues in the funds. 4,021

The issuance of long-term debt (e.g. bonds, leases,) provides current financial
resources to governmental funds, which the repayment of the principal of
long-term debt consumes the current financial resources of the governmental
funds. Neither transaction, however, has any affect on net position. This
amount is the net effect of these differences in the treatment of long-term
debt and related items.

Principal Repayments on Bonds	149,000	
Amortization of Deferred Charges & Premiums	2,210	
	151,210	151,210

Governmental funds report required contributions to employee pensions as
expenditures. However, in the Statement of Activities the cost of the pension
is recorded based on the actuarially determined cost of the plan. This is the
amount that contributions exceeded the actuarially determined pension expense. (7,351)

Some expenses reported in the Statement of Activities do not require the use of
current financial resources and, therefore, are not reported as expenditures in
governmental funds.

Change in Compensated Absences	(11,277)	
Change in Accrued Interest	497	
	(10,780)	(10,780)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 213,040

CITY OF CASTROVILLE
STATEMENT OF NET POSITION – PROPRIETARY FUND
SEPTEMBER 30, 2016

	ENTERPRISE FUNDS		
	Major Fund	Major Fund	
	Utility	Airport	
	Fund	Fund	Totals
ASSETS			
<i>Current Assets:</i>			
Cash and Investments	\$ 4,491,078	\$ 263,307	\$ 4,754,385
Receivables (net of allowance)	681,229	16,610	697,839
Inventory	69,924	12,046	81,970
<i>Total Current Assets</i>	<u>5,242,231</u>	<u>291,963</u>	<u>5,534,194</u>
<i>Restricted Assets:</i>			
Cash and Cash Equivalents	1,120,362	-	1,120,362
Investments Held in Escrow	14,378,154	-	14,378,154
<i>Total Restricted Assets</i>	<u>15,498,516</u>	<u>-</u>	<u>15,498,516</u>
<i>Non-Current Assets:</i>			
Capital Assets, Net of Accumulated			
Depreciation	3,796,505	8,258,193	12,054,698
<i>Total Non-Current Assets</i>	<u>3,796,505</u>	<u>8,258,193</u>	<u>12,054,698</u>
TOTAL ASSETS	<u>24,537,252</u>	<u>8,550,156</u>	<u>33,087,408</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Refunding	-	8,726	8,726
Deferred Pension Related Outflows	135,383	-	135,383
TOTAL DEFERRED OUTFLOWS			
OF RESOURCES	<u>\$ 135,383</u>	<u>\$ 8,726</u>	<u>\$ 144,109</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF NET POSITION – PROPRIETARY FUND (CONTINUED)
SEPTEMBER 30, 2016

	ENTERPRISE FUNDS		
	Major Fund	Major Fund	
	Utility	Airport	
	Fund	Fund	Totals
LIABILITIES			
<i>Current Liabilities:</i>			
Accounts Payable	\$ 754,186	\$ 8,947	\$ 763,133
Due to Other Funds	41,011	1,617	42,628
Accrued Interest Payable	44,203	2,338	46,541
Unearned Revenue	-	2,600	2,600
Current Portion of Long Term Debt	655,000	58,167	713,167
<i>Total Current Liabilities</i>	<u>1,494,400</u>	<u>73,669</u>	<u>1,568,069</u>
<i>Liabilities Payable from Restricted Assets:</i>			
Customer Deposits	<u>159,810</u>	<u>-</u>	<u>159,810</u>
<i>Non-Current Liabilities:</i>			
Compensated Absences	11,769	2,094	13,863
Net Pension Liability	200,900	-	200,900
Long-Term Debt	14,935,000	328,639	15,263,639
<i>Total Non-Current Liabilities</i>	<u>15,147,669</u>	<u>330,733</u>	<u>15,478,402</u>
TOTAL LIABILITIES	<u>16,801,879</u>	<u>404,402</u>	<u>17,206,281</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Related Inflows	<u>25,609</u>	<u>-</u>	<u>25,609</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>25,609</u>	<u>-</u>	<u>25,609</u>
NET POSITION			
Net Investment in Capital Assets	3,377,759	7,880,113	11,257,872
Restricted	743,938	-	743,938
Unrestricted	<u>3,723,450</u>	<u>274,367</u>	<u>3,997,817</u>
TOTAL NET POSITION	<u>\$ 7,845,147</u>	<u>\$ 8,154,480</u>	<u>\$ 15,999,627</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	ENTERPRISE FUNDS		
	Major Fund	Major Fund	
	Utility	Airport	
	Fund	Fund	Totals
OPERATING REVENUES			
Charges for Services	\$ 6,204,222	\$ 492,045	\$ 6,696,267
Fines and Forfeitures	62,380	1,780	64,160
Operating Grants	-	29,608	29,608
Miscellaneous Revenues	9,979	-	9,979
TOTAL OPERATING REVENUES	6,276,581	523,433	6,800,014
OPERATING EXPENSES			
Personnel Services	688,015	67,722	755,737
Supplies	18,306	2,063	20,369
Other Services and Charges	834,065	284,099	1,118,164
Electric Purchases	1,985,353	-	1,985,353
Gas Purchases	126,209	-	126,209
Sanitation Services	387,227	-	387,227
Depreciation and Amortization	184,098	198,502	382,600
TOTAL OPERATING EXPENSES	4,223,273	552,386	4,775,659
OPERATING INCOME (LOSS)	2,053,308	(28,953)	2,024,355
NONOPERATING REVENUES (EXPENSES)			
Interest Income	15,532	486	16,018
Interest and Fiscal Charges	(150,029)	(5,284)	(155,313)
Bond Issue Costs	(510,692)	-	(510,692)
TOTAL NONOPERATING REVENUES (EXPENSES)	(645,189)	(4,798)	(649,987)
Net Income (Loss) Before Transfers	1,408,119	(33,751)	1,374,368
Transfers Out	(873,732)	(6,000)	(879,732)
	(873,732)	(6,000)	(879,732)
CHANGE IN NET POSITION	534,387	(39,751)	494,636
NET POSITION AT BEGINNING OF YEAR	7,310,760	8,194,231	15,504,991
NET POSITION AT END OF YEAR	\$ 7,845,147	\$ 8,154,480	\$ 15,999,627

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	ENTERPRISE FUNDS		
	Major Fund	Major Fund	Totals
	Utility Fund	Airport Fund	
Cash Flows From Operating Activities:			
Cash Received From Customers	\$ 6,634,338	\$ 499,036	\$ 7,133,374
Cash Paid to Employee Wages & Benefits	(681,317)	(66,392)	(747,709)
Cash Paid to Suppliers for Goods and Services	(2,901,043)	(277,095)	(3,178,138)
Net Cash Provided (Used) by Operating Activities	3,051,978	155,549	3,207,527
Cash Flows From Noncapital Financing Activities:			
Interfund Payables	(8,606)	15,279	6,673
Transfer (to) from Other Funds	(873,732)	(6,000)	(879,732)
Net Cash Provided (Used) by Noncapital Financing Activities	(882,338)	9,279	(873,059)
Cash Flows From Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	(1,030,557)	-	(1,030,557)
Proceeds from Long-Term Debt	15,600,000	-	15,600,000
Retirement of Long-Term Debt	(595,000)	(56,141)	(651,141)
Interest and Fiscal Charges (Paid) Received	(105,826)	(6,060)	(111,886)
Bond Issue Costs	(510,692)	-	(510,692)
Net Cash Provided (Used) by Capital and Related Financing Activities	13,357,925	(62,201)	13,295,724
Cash Flows From Investing Activities:			
Investment Interest Received	15,532	486	16,018
Net Cash Provided (Used) by Investing Activities	15,532	486	16,018
Net Increase (Decrease) in Cash and Cash Equivalents	15,543,097	103,113	15,646,210
Cash and Investments at Beginning of Year:			
Cash and Investments	3,944,711	160,194	4,104,905
Restricted Cash and Investments	501,786	-	501,786
	<u>4,446,497</u>	<u>160,194</u>	<u>4,606,691</u>
Cash and Investments at End of Year:			
Cash and Investments	4,491,078	263,307	4,754,385
Restricted Cash and Investments	15,498,516	-	15,498,516
	<u>\$ 19,989,594</u>	<u>\$ 263,307</u>	<u>\$ 20,252,901</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	ENTERPRISE FUNDS		
	Major Fund	Major Fund	Totals
	Utility Fund	Airport Fund	
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ 2,053,308	\$ (28,953)	\$ 2,024,355
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation	184,098	198,502	382,600
Change in Net Pension Liability and Related Deferred Inflows and Deferred Outflows	6,985	-	6,985
(Increase) Decrease in Operating Assets:			
Accounts Receivable	350,687	(15,626)	335,061
Inventory	3,794	4,467	8,261
Prepaid Items	2,274	-	
Increase (Decrease) in Current Liabilities:			
Accounts Payable	444,049	4,600	448,649
Unearned Revenue	-	(8,771)	(8,771)
Customer Deposits	7,070	-	7,070
Compensated Absences	(287)	1,330	1,043
Total Adjustments to Reconcile Operating Activities	998,670	184,502	1,183,172
Net Cash Provided (Used) by Operating Activities	\$ 3,051,978	\$ 155,549	\$ 3,207,527

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Castroville, Texas ("City"), was incorporated in 1948. The City operates under a general law, Mayor-Council type of government, and provides the following services: public safety (law enforcement), public transportation (streets), culture, recreation, water, sewer, electricity, natural gas, sanitation, airport hangar leases and general administrative services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. REPORTING ENTITY

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City has no component units.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The **government-wide financial statements** include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The statement of activities reflects the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. This measurement focus is also used for the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenue types which have been accrued consist of revenue from the investments, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Revenues are classified as *program revenues* and *general revenues*. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, grants not restricted to specific programs, investment earnings, and other miscellaneous revenues.

Governmental fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if collected within 30 days of the end of the current fiscal period.

Property taxes, franchise taxes, sales tax, occupancy tax, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property and sales taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for general administration, public safety, public transportation, culture and recreation, capital acquisition, and debt service.

Nonmajor funds include special revenue funds, debt service fund, and capital improvement fund.

Proprietary fund level financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

Proprietary Funds are accounted for using the accrual basis of accounting as follows:

1. Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred.
2. Current-year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The City reports the following major proprietary funds:

The Utility Fund accounts for the activities of the City's water, sewer, gas and electric operations.
The Airport Fund accounts for the activities of the City's airport operations.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposits and investments with a maturity date within three (3) months of the date acquired by the City.

5. INVESTMENTS

State statutes authorize the City to invest in (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) - (d). Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations. The City has all its monies in interest bearing checking accounts, savings accounts, government investment pools, and certificates of deposit. Earnings from these investments are added to each account monthly or quarterly. Investments are carried at fair market value except for certificates of deposit which are carried at amortized cost.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. ACCOUNTS RECEIVABLE

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2015 and past due after January 31, 2016. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting.

Revenues for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are billable services for certain contracts and billable services for the City's water utilities, sewer services, and solid waste management. Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements. Receivables are shown net of an allowance for uncollectible accounts. The allowances for uncollectible property taxes and utility customer accounts as of September 30, 2016 are \$12,022 and \$37,741, respectively.

7. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds represented long term interfund receivables/payables that had an agreement for the repayment of funds.

8. INVENTORY

Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenses in the proprietary fund types when used.

9. RESTRICTED ASSETS

Certain resources are set aside for customer meter deposits. Deposits are classified as restricted assets on the balance sheet because they may be refunded at a point in time if the customer is in good standing with the water/sewer department.

Part of the agreement for bond proceeds from the Texas Water Development Board required reserve funds to be kept in a restricted bank account to serve as collateral.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more. Infrastructure assets include City-owned streets, sewer, sidewalks, curbs and bridges. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest has not been capitalized during the construction period on property plant and equipment.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Estimated Life</u>
Buildings and Improvements	7 to 50 years
Machinery and Equipment	5 to 35 years
Infrastructure	5 to 50 years

11. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. Unavailable revenue is reported only in the governmental funds balance sheet under the modified accrual basis of accounting. Unavailable revenues from property tax are deferred and recognized as an inflow of resource in the period the amounts become available.

12. UNEARNED REVENUE

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grant and reimbursement revenues received in advance of expenses/expenditures are reflected as unearned revenue. The City's collection of future hanger lease payments as of September 30, 2016 is shown as Unearned Revenue.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13. COMPENSATED ABSENCES

Employees earn vacation leave at varying rates depending on length of service: 10 days leave for each year from year 1 through 5 (not available for use until first six months of service is completed), an additional 7 days for each year from year 6 through 9, and an additional 3 days for each year from year 10 through 14, and an additional 5 days per year for each year of service thereafter up to a maximum of 20 days per year. Annual leave exceeding 40 days will not be carried over, except with City Administrator approval.

Employees earn sick leave at the rate of 3.69 hours per pay period starting ninety days after the date of employment. No sick leave days are paid when an employee leaves city employment and no liability is reported for unpaid sick leave. Liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued in the government-wide statements.

14. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities or proprietary fund type statement of net position. On new bond issues, bond premiums and discounts are amortized over the life of the bond.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

15. PENSIONS

The net pension (asset) liability, deferred inflows and outflows of resources related to pensions, pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS), and additions to and deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable, in accordance with the benefit terms. Investments are reported at fair value.

16. FUND EQUITY

Fund balances in governmental funds are classified as follows:

Nonspendable – Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact.

Restricted – Represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16. FUND EQUITY (Continued)

Committed – Represents amounts that can only be used for the specific purposes determined by a formal action of the government’s highest level of decision making authority. The governing council is the highest level of decision making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned – Represents amounts which the City intends to use for a specific purpose but do not meet the criteria of restricted or committed. The City Council is the only entity that may make assignments at this time as the Council has not designated any other individuals with the authority to make assignments.

Unassigned – Represents the residual balance that may be spent on any other purpose of the City.

When an expenditure is incurred for a purpose in which multiple classifications are available, the City considers restricted balances spent first, committed second, and assigned third.

17. NET POSITION

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

18. INTERFUND TRANSACTIONS

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

19. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise. For the City, those revenues are charges for water and sewer services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as nonoperating.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

20. **USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B -- DEPOSITS AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Deposits

At September 30, 2016, the carrying amount of the City's cash on hand was \$1,365, the carrying amount of deposits in bank was \$7,053,611, and the bank balance was \$7,157,530. The bank balance was covered by federal deposit insurance at Castroville State Bank for \$250,000 as well as the City's depository had pledged securities having a face value of \$8,530,000 and market value of \$8,857,997 as collateral for the City's deposits. All of the City's cash was fully collateralized.

2. Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. The Act requires that the Council review the investment policy at least annually, investment officers obtain minimum investment training, and investment officers sign quarterly investment reports submitted to Council. Audit procedures in this area, conducted as part of the basic financial statements, disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act in all material respects. Additionally, investment practices of the City were in accordance with local policies.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

2. Investments (Continued)

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The City's investment policy further prioritizes investments as: (1) safety, (2) liquidity, (3) public trust, and (4) yield. The City's investments at September 30, 2016 were \$673,494 invested in certificates of deposit. The certificates of deposit were fully collateralized.

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

c. Concentration of Credit Risk

The risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City had exposure to concentration of credit risk as \$14,378,154 was held at a single financial institution as this represents the amounts held in escrow by the Texas Water Development Board in the City's name.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

3. Analysis of Specific Deposit and Investment Risks (Continued)

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

4. Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

5. Held in Escrow

The amount of funds approved by the Texas Water Development Board but not yet drawn down by the City is held in escrow by the Texas Water Development Board in the City's name. The amount held in escrow as of September 30, 2016 was \$14,378,154.

NOTE C -- PROPERTY TAX CALENDAR

The City's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Medina County Appraisal District at 100% of estimated market value. Assessed values are reduced by lawful exemptions to arrive at taxable values. A revaluation of all property is required to be completed every four (4) years. The total taxable value as of January 1, 2015, upon which the fiscal 2016 levy was based, was \$152,969,476 (i.e., market value less exemptions). The estimated market value was \$200,253,128, making the taxable value 76.4% of the estimated market value.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE C -- PROPERTY TAX CALENDAR (Continued)

The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended September 30, 2016, was \$0.4994 per \$100 of assessed value, which means that the City has a tax margin of \$2.0006 for each \$100 value and could increase its annual tax levy by approximately \$3,060,307 based upon the present assessed valuation before the limit is reached. However, the City may not adopt a tax rate that exceeds the effective tax rate calculated in accordance with the Texas Property Tax Code without holding two public hearings. The Property Tax Code subjects an increase in the proposed tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than eight percent (8%) of the previous year's maintenance and operations tax rate.

NOTE D -- OTHER RECEIVABLES

Other receivables for the City as of September 30, 2016 are as follows:

	General Fund	Nonmajor Governmental Funds	Utility Fund	Airport Fund	Total
Occupancy Tax	\$ -	\$ 4,021	\$ -	\$ -	\$ 4,021
Customer Receivables, Net of Allowance for Uncollectibles	-	-	681,229	16,610	697,839
Miscellaneous	8,848	-	-	-	8,848
Total Other Receivables	<u>\$ 8,848</u>	<u>\$ 4,021</u>	<u>\$ 681,229</u>	<u>\$ 16,610</u>	<u>\$ 710,708</u>

NOTE E -- INTERFUND RECEIVABLE/PAYABLE AND TRANSFERS

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, and service debt. As of September 30, 2016, the following balances were due between funds:

Receivable Fund	Payable Fund	Amount	Reason
General Fund	Utility Fund	\$ 31,858	Reimbursement for Costs
General Fund	Airport Fund	1,339	Reimbursement for Costs
General Fund	Nonmajor Governmental Fund	1,519	Reimbursement for Costs
Utility Fund	Airport Fund	278	Reimbursement for Costs
Nonmajor Governmental Fund	General Fund	36,224	Reimbursement for Costs
Nonmajor Governmental Fund	Utility Fund	9,431	Reimbursement for Costs
		<u>\$ 80,649</u>	

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE E -- INTERFUND RECEIVABLE/PAYABLE AND TRANSFERS (Continued)

Transfers during the year ended September 30, 2016, were as follows:

Transfer In	Transfers Out	Amount	Purpose
General Fund	Utility Fund	\$ 847,747	Supplement Funding
General Fund	Airport Fund	12,000	Supplement Funding
General Fund	Nonmajor Governmental Fund	60,000	Supplement Funding
Airport Fund	Nonmajor Governmental Fund	6,000	Supplement Funding
Nonmajor Governmental Fund	General Fund	21,223	Supplement Funding
Nonmajor Governmental Fund	Nonmajor Governmental Fund	96,858	Supplement Funding
Nonmajor Governmental Fund	Utility Fund	25,985	Supplement Funding
		<u>\$ 1,069,813</u>	

NOTE F -- CAPITAL ASSETS

<i>Governmental Activities</i>	Balance 10/1/2015	Additions/ Transfer In	Disposals/ Transfer Out	Balance 9/30/2016
Land	\$ 105,330	\$ -	\$ -	\$ 105,330
Buildings and Improvements	588,965	-	-	588,965
Vehicles and Equipment	778,463	150,739	-	929,202
Infrastructure	1,814,385	-	-	1,814,385
	<u>3,287,143</u>	<u>150,739</u>	<u>-</u>	<u>3,437,882</u>
Less Accumulated Depreciation				
Buildings and Improvements	(229,819)	(20,679)	-	(250,498)
Vehicles and Equipment	(661,870)	(47,741)	-	(709,611)
Infrastructure	(460,290)	(34,095)	-	(494,385)
	<u>(1,351,979)</u>	<u>(102,515)</u>	<u>-</u>	<u>(1,454,494)</u>
Governmental Capital Assets, Net	<u>\$ 1,935,164</u>	<u>\$ 48,224</u>	<u>\$ -</u>	<u>\$ 1,983,388</u>

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE F -- CAPITAL ASSETS (Continued)

Capital asset activity for the year ended September 30, 2016, was as follows:

<i>Business-Type Activities</i>	Balance 10/1/2015	Additions/ Transfer In	Disposals/ Transfer Out	Balance 9/30/2016
Land	\$ 1,548,522	\$ -	\$ -	\$ 1,548,522
Construction in Progress	4,120,214	956,435	(3,600,590)	1,476,059
Water Rights	112,386	15,000	-	127,386
Buildings and Improvements	2,896,721	3,600,590	-	6,497,311
Vehicles and Equipment	1,093,181	59,122	-	1,152,303
Infrastructure	8,731,941	-	-	8,731,941
	<u>18,502,965</u>	<u>4,631,147</u>	<u>(3,600,590)</u>	<u>19,533,522</u>
Less Accumulated Depreciation				
Buildings and Improvements	(1,458,445)	(135,916)	-	(1,594,361)
Vehicles and Equipment	(769,376)	(58,264)	-	(827,640)
Infrastructure	(4,868,404)	(188,419)	-	(5,056,823)
	<u>(7,096,225)</u>	<u>(382,599)</u>	<u>-</u>	<u>(7,478,824)</u>
Business-Type Capital Assets, Net	<u>\$ 11,406,740</u>	<u>\$ 4,248,548</u>	<u>\$ (3,600,590)</u>	<u>\$ 12,054,698</u>

Land, Construction in Progress, and Water Rights are not depreciated.

Depreciation expense was charged to the functions as follows:

Governmental Activities:

General Administration	\$ 24,304
Public Safety	30,564
Public Transportation	34,282
Culture and Recreation	13,365
Total Depreciation Expense - Governmental Activities	<u>\$ 102,515</u>

Business-Type Activities:

Utility	\$ 184,098
Airport	198,501
Total Depreciation Expense - Business-Type Activities	<u>\$ 382,599</u>

NOTE G -- LONG-TERM DEBT

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities and equipment for governmental and business-type activities. These instruments include general obligation bonds, certificates of obligation, tax notes, and capital leases. These debt obligations are secured by either future property tax revenue or future revenue from charges for services.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE G -- LONG-TERM DEBT (Continued)

A summary of the general obligation debt is as follows:

Issue Amount	Maturity	Interest Rate	Balance
General Obligation Refunding Bonds:			
2012 Series	2026	2.0 - 3.0%	<u>\$ 1,470,000</u>

The City issued General Obligation Refunding Bonds, Series 2012 on October 30, 2012 in the amount of \$2,020,000 to advance refund 1) General Obligation Refunding Bonds, Series 2004 in the amount of \$200,000; 2) Certificates of Obligation, Series 2003 in the amount of \$960,000; and 3) Certificates of Obligation, Series 2004 in the amount of \$860,000. The net proceeds of \$2,081,415 (including premiums of \$100,023 and after payment of underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. The advance refunding was undertaken to result in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$252,963.

The City entered into a loan agreement with the Texas Department of Transportation in January 2004 to borrow the sum of \$278,748 for the construction of aviation T-hangers at the airport. The loan is due and payable with 15 annual payments of \$23,350, which include interest at 3%. The final maturity of the loan is May 15, 2020.

In 2012, the City received a federal award of a note through the Texas Water Development Board to fund improvements to the City's water and waste water lines. As of September 30, 2016, the City has drawn \$285,590 and \$375,000, respectively of the total \$350,000 and \$375,000, respectively available. Interest rates vary from .05% - 1.22% and .08% - 1.52%, respectively. Details about these financings are as follows in the changes in long-term debt and annual requirements.

In 2015, the City received an additional federal award of a note through the Texas Water Development Board to fund improvements to the City's water and waste water lines in the amount of \$15,600,000. As of September 30, 2016, the City has drawn \$287,037, \$370,348, and \$629,948, respectively of the total \$3,050,000, \$3,500,000 and \$9,050,000, respectively available. Interest rates vary from 0% - 1.8%, 0% - 1.5% and 0% - 1.75%, respectively. Details about these financings are as follows in the changes in long-term debt and annual requirements.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE G -- LONG-TERM DEBT (Continued)

Changes in Long-Term Debt

	Balance 9/30/2015	Additions	Reductions	Balance 9/30/2016	Due Within One Year
<i>Governmental Activities:</i>					
2012 Refunding Bonds	\$ 1,333,200	\$ -	\$ (149,000)	\$ 1,184,200	\$ 149,000
2012 Premium on Bonds	62,999	-	(5,728)	57,271	5,727
Compensated Absences	60,659	11,277	-	71,936	-
<i>Total Governmental Activities</i>	<u>1,456,858</u>	<u>11,277</u>	<u>(154,728)</u>	<u>1,313,407</u>	<u>154,727</u>
<i>Business-Type Activities:</i>					
2012 Refunding Bonds	321,800	-	(36,000)	285,800	36,000
2012 Premium on Bonds	15,633	-	(1,421)	14,212	1,421
TXDOT Note	106,935	-	(20,141)	86,794	20,746
TWDB - DWSRF	280,000	-	(35,000)	245,000	35,000
TWDB - DWSRF - Construction	-	3,500,000	(65,000)	3,435,000	170,000
TWDB - CWSRF	305,000	-	(35,000)	270,000	35,000
TWDB - CWSRF - Construction	-	3,050,000	(155,000)	2,895,000	145,000
Series 2015 Revenue Bonds	-	9,050,000	(305,000)	8,745,000	270,000
Compensated Absences	10,287	3,576	-	13,863	-
<i>Total Business-Type Activities</i>	<u>1,039,655</u>	<u>15,603,576</u>	<u>(652,562)</u>	<u>15,990,669</u>	<u>713,167</u>

The total deferred charges remaining on the refunding is \$43,891 as of September 30, 2016 and is shown on the Statement of Net Position as a deferred outflow of resources.

Annual requirements to amortize all bonded debt outstanding as of September 30, 2016 are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2017	\$ 149,000	\$ 30,950	\$ 179,950
2018	153,000	27,968	180,968
2019	157,000	24,905	181,905
2020	128,900	21,762	150,662
2021	128,900	17,893	146,793
2022 - 2026	467,400	35,907	503,307
	<u>\$ 1,184,200</u>	<u>\$ 159,385</u>	<u>\$ 1,343,585</u>
Year Ending September 30,	Business-Type Activities		
	Principal	Interest	Total
2017	\$ 711,746	\$ 167,677	\$ 879,423
2018	718,367	166,252	884,619
2019	720,009	164,616	884,625
2020	713,772	162,727	876,499
2021	691,100	160,361	851,461
2022 - 2026	3,252,600	749,242	4,001,842
2027 - 2031	3,120,000	604,794	3,724,794
2032 - 2036	2,970,000	386,613	3,356,613
2037 - 2041	1,650,000	206,297	1,856,297
2042 - 2045	1,415,000	62,125	1,477,125
	<u>\$ 15,962,594</u>	<u>\$ 2,830,704</u>	<u>\$ 18,793,298</u>

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS

Texas Municipal Retirement System

1. Plan Description

The City participates, as one of 866 plans, in the nontraditional, joint-contributory, hybrid-defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the system with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in the TMRS retirement system.

2. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the State statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

	2015
Inactive employees or beneficiaries currently receiving benefits	29
Inactive employees entitled to but not yet receiving benefits	50
Active employees	41
	<u>120</u>

3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the State Law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

3. Contributions (Continued)

For the year ending September 30, 2016, employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 8.71% and 9.07% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016 were \$156,977, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) or Asset was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

5. Actuarial Assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary Increases	3.50% to 10.5%, including inflation
Investment Rate of Return*	6.75%

*Presented net of pension plan investment expense, including inflation.

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Health Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term funding needs of TMRS.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

5. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding the expected inflation.

In determining their best estimated of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
	<u>100.00%</u>	

6. Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

7. Discount Rate Sensitivity Analysis

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.75%) or 1-percentage point higher (7.75%) than the current rate:

	Discount Rate 5.75%	Discount Rate 6.75%	Discount Rate 7.75%
Net Pension Liability	\$ 1,371,655	\$ 632,850	\$ 41,404

8. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained at www.tmr.com.

9. Changes in Net Pension Liability

The below schedule presents the changes in the Net Pension Liability (Asset) as of December 31, 2015:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at December 31, 2014	\$ 4,755,332	\$ 4,362,600	\$ 392,732
Changes for the year:			
Service Cost	193,289	-	193,289
Interest	330,968	-	330,968
Changes of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	(112,683)	-	(112,683)
Changes of Assumptions	52,240	-	52,240
Contributions - Employer	-	140,635	(140,635)
Contributions - Employee	-	80,739	(80,739)
Net Investment Income	-	6,437	(6,437)
Benefit Payments, Including Refunds of Employee Contributions	(247,734)	(247,734)	-
Administrative Expense	-	(3,920)	3,920
Other Changes	-	(195)	195
Net Changes	<u>216,080</u>	<u>(24,038)</u>	<u>240,118</u>
Balance at December 31, 2015	<u>\$ 4,971,412</u>	<u>\$ 4,338,562</u>	<u>\$ 632,850</u>

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

10. Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the City recognized a pension expense of \$171,312. Also, as of September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Economic Experience	\$ -	\$ 80,670
Changes in Actuarial Assumptions	31,427	-
Differences between Projected and Actual Investment Earnings	270,830	-
Contributions Subsequent to the Measurement Date	124,209	-
	<u>\$ 426,466</u>	<u>\$ 80,670</u>

Deferred outflows of resources in the amount of \$124,209 is related to pensions resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year ended December 31,	
2016	\$ 33,385
2017	58,066
2018	70,347
2019	59,789
	<u>\$ 221,587</u>

11. Other Post-Employment Benefits

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post-employment benefit," or OPEB.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

11. Other Post-Employment Benefits (Continued)

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure the adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended September 30, 2016, 2015, and 2014 were \$5,111, \$3,699, and \$3,099, respectively, which equaled the required contributions each year.

NOTE I -- FUND BALANCE

The City reported fund balance designations at September 30, 2016 as follows:

Fund Balance Designation	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Restricted for:			
Debt Service	\$ -	\$ 32,268	\$ 32,268
Tourism	-	13,271	13,271
Library	-	6,036	6,036
Police Training and Operations	-	10,881	10,881
Court Security	-	25,008	25,008
Total Restricted Fund Balance	-	87,464	87,464
Committed for:			
Drainage Projects	-	209,540	209,540
Facilities Maintenance	-	24,435	24,435
Street Rehabilitation	-	78,806	78,806
Total Committed Fund Balance	-	312,781	312,781
Unassigned	1,378,132	(1,428)	1,376,704
Total Fund Balance	<u>\$ 1,378,132</u>	<u>\$ 398,817</u>	<u>\$ 1,776,949</u>

As of September 30, 2016, the Court Technology fund had a deficit restricted fund balance which reduced the amount of funds available in the Unassigned Fund balance for total governmental funds by \$1,428.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE J -- RESTRICTED NET POSITION

The City reported restricted net position at September 30, 2016 as follows:

Net Position Restricted for:	Governmental Activities	Business-type Activities	Total Restricted Net Position
Debt Service	\$ 28,185	\$ -	\$ 28,185
Tourism	13,271	-	13,271
Library	6,036	-	6,036
Police Training and Operations	10,881	-	10,881
Court Security	25,008	-	25,008
Water Acquisition	-	312,863	312,863
Capital Improvements	-	431,075	431,075
			-
Total Restricted Net Position	<u>\$ 83,381</u>	<u>\$ 743,938</u>	<u>\$ 827,319</u>

NOTE K -- COMMITMENTS AND CONTINGENCIES

Litigation

The City is the subject of various claims and litigation that have arisen in the course of its operations. Management is of the opinion that the City's liability in these cases, if decided adversely to the City, will not have a material effect on the City's financial position.

Construction Commitments

The City has entered into construction and engineering contracts for the following projects. Estimated future commitments associated with these contracts as of September 30, 2016 are as follows:

Commitment	Estimated Project Cost to City	Expended to Date	Estimated Future Commitment
Engineering Fees	\$ 1,491,106	\$ 1,289,237	\$ 201,869
Water Line Replacement	2,000,002	115,073	1,884,929
SCADA, Phase IV	57,400	-	57,400
	<u>\$ 3,548,508</u>	<u>\$ 1,404,310</u>	<u>\$ 2,144,198</u>

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2016

NOTE L -- RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty, and workers compensation. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contributed amounts for losses up to \$3,000,000. Annual contributions for the year ended September 30, 2016 were \$86,340 for property and casualty and workers compensation coverage.

NOTE M -- SUBSEQUENT EVENTS

In October 2016, the City purchased 63.8 acres of land and the corresponding water rights for \$791,633. The use of the land has not been decided as of the date of this report.

Subsequent to year end, the City also entered into the following major contracts associated with the expansion of the wastewater treatment plant, construction management, and project management in the amounts of \$9,279,580, \$236,700, and \$299,000, respectively. Additionally, the City approved a construction contract for the Eastside Lift Station Project in the amount of \$1,703,023.

The City also issued tax notes, Series 2016 in the amount of \$935,000.



REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
- Schedule of Changes – Net Pension Liability and Related Ratios



CITY OF CASTROVILLE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016
(WITH COMPARATIVE ACTUAL TOTALS FOR 2015)

	Budget Amounts		Actual	Variance	
	Original	Final	Amounts	Favorable (Unfavorable)	2015
REVENUES					
Ad Valorem Taxes	\$ 742,337	\$ 742,337	\$ 792,065	\$ 49,728	\$ 725,021
Sales Taxes	721,000	720,000	758,697	38,697	703,365
Franchise Fees	-	21,890	26,356	4,466	22,709
Other Taxes	-	2,270	3,242	972	2,306
Licenses and Permits	-	75,000	132,724	57,724	97,617
Charges for Services	184,100	192,250	164,996	(27,254)	190,210
Fines and Forfeitures	240,510	240,510	211,544	(28,966)	248,030
Intergovernmental Revenue	-	-	-	-	696
Interest Income	-	3,700	4,406	706	3,999
Miscellaneous	184,253	74,243	64,905	(9,338)	30,713
TOTAL REVENUES	2,072,200	2,072,200	2,158,935	86,735	2,024,666
EXPENDITURES					
<i>Current:</i>					
General Administration					
City Administration	169,589	169,589	141,290	28,299	287,294
Finance	270,168	269,697	235,820	33,877	338,086
City Council	50,321	50,321	32,380	17,941	20,800
City Secretary	117,771	117,771	98,327	19,444	129,044
Information Technology	86,383	86,383	70,516	15,867	47,562
Human Resources	64,625	65,096	64,403	693	-
Non-Departmental	317,821	317,821	255,107	62,714	-
Public Safety					
Animal Control	63,215	63,215	55,656	7,559	57,485
Code Enforcement	309,963	309,963	247,818	62,145	193,943
Municipal Court	102,559	102,559	88,257	14,302	86,819
Police Department	781,958	748,042	749,580	(1,538)	718,502
Economic Development	57,413	57,413	25,046	32,367	-
Public Transportation					
Streets	573,025	483,525	320,065	163,460	237,058
Culture and Recreation					
Library	182,286	182,286	180,535	1,751	156,050
Parks	228,624	218,624	197,003	21,621	258,265
Pool	113,058	108,058	112,637	(4,579)	108,967
<i>Capital Outlay</i>	-	138,416	114,028	24,388	64,859
TOTAL EXPENDITURES	3,488,779	3,488,779	2,988,468	500,311	2,704,734
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,416,579)	(1,416,579)	(829,533)	587,046	(680,068)
OTHER FINANCING SOURCES (USES)					
Transfers In	919,741	919,741	919,747	6	858,840
Transfers Out	(21,223)	(21,223)	(21,223)	-	(21,223)
TOTAL OTHER FINANCING SOURCES (USES)	898,518	898,518	898,524	6	837,617
Net Change in Fund Balance	(518,061)	(518,061)	68,991	587,052	157,549
Fund Balance - Beginning of Year	1,309,141	1,309,141	1,309,141	-	1,151,592
Fund Balance - End of Year	\$ 791,080	\$ 791,080	\$ 1,378,132	\$ 587,052	\$ 1,309,141

CITY OF CASTROVILLE
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND
SEPTEMBER 30, 2016

Budgetary Information – The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The City maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provision embodied in the annual appropriated budget approved by the City Council and as such is a good management control device. The following are the funds which have legally adopted annual budgets: General Fund.

Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances lapse at year-end and do not constitute expenditures or liabilities because the commitments must be reappropriated and honored during the subsequent year.

CITY OF CASTROVILLE
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES – NET PENSION LIABILITY AND RELATED RATIOS
LAST TWO CALENDAR YEARS

Total Pension Liability		
	2014	2015
Service Cost	\$ 162,880	\$ 193,289
Interest (on the Total Pension Liability)	314,941	330,968
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	(47,315)	(112,683)
Changes of Assumptions	-	52,240
Benefit Payments, Including Refunds of Employee Contributions	(185,781)	(247,734)
Net Change in Total Pension Liability	244,725	216,080
Total Pension Liability - Beginning	4,510,607	4,755,332
Total Pension Liability - Ending	<u>\$ 4,755,332</u>	<u>\$ 4,971,412</u>
Plan Fiduciary Net Position		
	2014	2015
Contributions - Employer	\$ 116,470	\$ 140,635
Contributions - Employee	73,753	80,739
Net Investment Income	235,951	6,437
Benefit Payments, Including Refunds of Employee Contributions	(185,781)	(247,734)
Administrative Expense	(2,464)	(3,920)
Other	(203)	(195)
Net Change in Plan Fiduciary Net Position	237,726	(24,038)
Plan Fiduciary Net Position - Beginning	4,124,874	4,362,600
Plan Fiduciary Net Position - Ending	<u>\$ 4,362,600</u>	<u>\$ 4,338,562</u>
Net Pension Liability - Ending	\$ 392,732	\$ 632,850
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	91.74%	87.27%
Covered Employee Payroll	\$ 1,475,068	\$ 1,614,779
Net Pension Liability as a Percentage of Covered Employee Payroll	26.62%	39.19%

CITY OF CASTROVILLE
SCHEDULE OF CONTRIBUTIONS AND RELATED NOTES
LAST TWO FISCAL YEARS

Schedule of Contributions:

	2015	2016
Actuarially Determined Contribution	\$ 139,842	\$ 156,977
Contribution in Relation to the Actuarially Determined Contribution	139,842	156,977
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	\$ 1,643,667	\$ 1,744,669
Contributions as a Percentage of Covered Employee Payroll	8.51%	9.00%

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, thirteen (13) months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 Years
Asset Valuation Method	10 Year Smoothed Market, 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

SUPPLEMENTARY INFORMATION

Supplementary information includes financial statements and schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedule include:

- Comparative Statements – General Fund
- Combining Statements – Nonmajor Funds

CITY OF CASTROVILLE
COMPARATIVE BALANCE SHEETS
GENERAL FUND
SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Investments	\$ 1,502,853	\$ 1,256,266
Receivables (net of allowances for uncollectibles):		
Property Taxes	8,659	8,659
Sales & Mixed Beverage Taxes	128,254	111,175
Other Receivables	8,848	141,787
Prepaid Items	<u>-</u>	<u>1,549</u>
TOTAL ASSETS	<u><u>\$ 1,648,614</u></u>	<u><u>\$ 1,519,436</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
<i>Liabilities:</i>		
Accounts Payable	\$ 124,989	\$ 51,223
Accrued Expenditures	74,699	18,656
Due to Other Funds	<u>1,508</u>	<u>75,150</u>
<i>Total Liabilities</i>	<u><u>201,196</u></u>	<u><u>145,029</u></u>
<i>Deferred Inflows of Resources:</i>		
Unavailable Revenues	8,659	8,659
Future Sales Tax Revenue	<u>60,627</u>	<u>56,607</u>
<i>Total Deferred Inflows of Resources</i>	<u><u>69,286</u></u>	<u><u>65,266</u></u>
<i>Fund Balances:</i>		
Nonspendable:		
Prepays	-	1,549
Unassigned	<u>1,378,132</u>	<u>1,307,592</u>
<i>Total Fund Balances</i>	<u><u>1,378,132</u></u>	<u><u>1,309,141</u></u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURECES, & FUND BALANCES	<u><u>\$ 1,648,614</u></u>	<u><u>\$ 1,519,436</u></u>

CITY OF CASTROVILLE
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
REVENUES		
Ad Valorem Taxes	\$ 792,065	\$ 725,021
Sales Taxes	758,697	703,365
Franchise Fees	26,356	22,709
Other Taxes	3,242	2,306
Licenses and Permits	132,724	97,617
Charges for Services	164,996	190,210
Fines and Forfeitures	211,544	248,030
Intergovernmental Revenue	-	696
Interest Income	4,406	3,999
Miscellaneous	64,905	30,713
TOTAL REVENUES	2,158,935	2,024,666
EXPENDITURES		
<i>Current:</i>		
General Administration		
City Administration	141,290	287,294
Finance	235,820	338,086
City Council	32,380	20,800
City Secretary	98,327	129,044
Information Technology	70,516	47,562
Human Resources	64,403	-
Non-Departmental	255,107	-
Public Safety		
Animal Control	55,656	57,485
Code Enforcement	247,818	193,943
Municipal Court	88,257	86,819
Police Department	749,580	718,502
Economic Development	25,046	-
Public Transportation		
Streets	320,065	237,058
Culture and Recreation		
Library	180,535	156,050
Parks	197,003	258,265
Pool	112,637	108,967
<i>Capital Outlay</i>	114,028	64,859
TOTAL EXPENDITURES	2,988,468	2,704,734
Excess (Deficiency) of Revenues		
Over (Under) Expenditures	(829,533)	(680,068)
OTHER FINANCING SOURCES (USES)		
Transfers In	919,747	858,840
Transfer Out	(21,223)	(21,223)
TOTAL OTHER FINANCING SOURCES (USES)	898,524	837,617
Net Change in Fund Balance	68,991	157,549
Fund Balances at Beginning of Year	1,309,141	1,151,592
Fund Balances at End of Year	\$ 1,378,132	\$ 1,309,141

CITY OF CASTROVILLE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	SPECIAL REVENUE				
	Drainage Fund	Hotel Occupancy Fund	Alsatian House Fund	Biry House Fund	Library Memorial Fund
ASSETS					
Cash and Investments	\$ 200,109	\$ 5,626	\$ 14,617	\$ 9,818	\$ 6,036
Receivables (net of allowances for uncollectibles):					
Property Taxes	-	-	-	-	-
Other Receivables	-	4,021	-	-	-
Due from Other Funds	9,431	3,802	-	-	-
TOTAL ASSETS	<u>\$ 209,540</u>	<u>\$ 13,449</u>	<u>\$ 14,617</u>	<u>\$ 9,818</u>	<u>\$ 6,036</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
<i>Liabilities:</i>					
Accounts Payable	\$ -	\$ 178	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-	-	-
<i>Total Liabilities</i>	<u>-</u>	<u>178</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Deferred Inflows of Resources:</i>					
Unavailable Revenues	-	-	-	-	-
<i>Total Deferred Inflows of Resources</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund Balances:</i>					
Restricted	-	13,271	-	-	6,036
Committed	209,540	-	14,617	9,818	-
Unassigned	-	-	-	-	-
<i>Total Fund Balances</i>	<u>209,540</u>	<u>13,271</u>	<u>14,617</u>	<u>9,818</u>	<u>6,036</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 209,540</u>	<u>\$ 13,449</u>	<u>\$ 14,617</u>	<u>\$ 9,818</u>	<u>\$ 6,036</u>

SPECIAL REVENUE						
DEA Forfeiture Fund	Police Dept. Training Fund	Court Security Fund	Court Technology Fund	Debt Service Funds	Capital Improvement Funds	Total Non Major Funds
\$ 8,569	\$ 2,353	\$ 25,008	\$ 50	\$ 32,226	\$ 46,426	\$ 350,838
-	-	-	-	1,075	-	1,075
-	-	-	-	-	-	4,021
-	-	-	-	42	32,380	45,655
<u>\$ 8,569</u>	<u>\$ 2,353</u>	<u>\$ 25,008</u>	<u>\$ 50</u>	<u>\$ 33,343</u>	<u>\$ 78,806</u>	<u>\$ 401,589</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 178
-	41	-	1,478	-	-	1,519
-	41	-	1,478	-	-	1,697
-	-	-	-	1,075	-	1,075
-	-	-	-	1,075	-	1,075
8,569	2,312	25,008	-	32,268	-	87,464
-	-	-	-	-	78,806	312,781
-	-	-	(1,428)	-	-	(1,428)
<u>8,569</u>	<u>2,312</u>	<u>25,008</u>	<u>(1,428)</u>	<u>32,268</u>	<u>78,806</u>	<u>398,817</u>
<u>\$ 8,569</u>	<u>\$ 2,353</u>	<u>\$ 25,008</u>	<u>\$ 50</u>	<u>\$ 33,343</u>	<u>\$ 78,806</u>	<u>\$ 401,589</u>

CITY OF CASTROVILLE
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

	SPECIAL REVENUE				
	Drainage Fund	Hotel Occupancy Fund	Alsatian House Fund	Biry House Fund	Library Memorial Fund
REVENUES					
Ad Valorem Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	43,966	-	-	-
Charges for Services	105,385	-	-	-	-
Intergovernmental Revenue	-	-	-	-	-
Interest Income	1,019	25	41	-	18
Miscellaneous	-	-	2,213	-	-
TOTAL REVENUES	<u>106,404</u>	<u>43,991</u>	<u>2,254</u>	<u>-</u>	<u>18</u>
EXPENDITURES					
<i>Current:</i>					
General Administration					
City Administration	-	70,694	1,269	-	-
Public Safety					
Municipal Court	-	-	-	-	-
Police Department	-	-	-	-	-
Public Transportation					
Streets	-	-	-	-	-
<i>Capital Outlay</i>	-	-	-	-	-
<i>Debt Service:</i>					
Principal	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>70,694</u>	<u>1,269</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>106,404</u>	<u>(26,703)</u>	<u>985</u>	<u>-</u>	<u>18</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	-	21,223	-	-	-
Transfers Out	<u>(96,858)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(96,858)</u>	<u>21,223</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	9,546	(5,480)	985	-	18
Fund Balances at Beginning of Year	<u>199,994</u>	<u>18,751</u>	<u>13,632</u>	<u>9,818</u>	<u>6,018</u>
Fund Balances at End of Year	<u>\$ 209,540</u>	<u>\$ 13,271</u>	<u>\$ 14,617</u>	<u>\$ 9,818</u>	<u>\$ 6,036</u>

SPECIAL REVENUE						
DEA Forfeiture Fund	Police Dept. Training Fund	Court Security Fund	Court Technology Fund	Debt Service Funds	Capital Improvement Funds	Total Non Major Funds
\$ -	\$ -	\$ -	\$ -	\$ 83,490	\$ -	\$ 83,490
-	-	-	-	-	-	43,966
-	-	3,481	4,641	-	-	113,507
-	1,155	-	-	-	-	1,155
26	-	70	4	229	323	1,755
-	-	-	-	-	-	2,213
<u>26</u>	<u>1,155</u>	<u>3,551</u>	<u>4,645</u>	<u>83,719</u>	<u>323</u>	<u>246,086</u>
-	-	-	-	-	-	71,963
-	-	851	7,214	-	-	8,065
-	41	-	-	-	-	41
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	149,000	-	149,000
-	-	-	-	39,500	-	39,500
-	41	851	7,214	188,500	-	268,569
<u>26</u>	<u>1,114</u>	<u>2,700</u>	<u>(2,569)</u>	<u>(104,781)</u>	<u>323</u>	<u>(22,483)</u>
-	-	-	-	122,843	-	144,066
-	-	-	-	(6,000)	(60,000)	(162,858)
-	-	-	-	116,843	(60,000)	(18,792)
26	1,114	2,700	(2,569)	12,062	(59,677)	(41,275)
<u>8,543</u>	<u>1,198</u>	<u>22,308</u>	<u>1,141</u>	<u>20,206</u>	<u>138,483</u>	<u>440,092</u>
<u>\$ 8,569</u>	<u>\$ 2,312</u>	<u>\$ 25,008</u>	<u>\$ (1,428)</u>	<u>\$ 32,268</u>	<u>\$ 78,806</u>	<u>\$ 398,817</u>

